



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
<http://ceo.lacounty.gov>

July 3, 2012

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

APPROVAL OF RELATED ACTIONS FOR THE CALABASAS LANDFILL (THIRD DISTRICT) (3 VOTES)

SUBJECT

The recommended actions will reimburse the Calabasas Landfill Working Capital Fund for eligible expenditures and develop short-term and long-term strategies to improve the overall financial stability of the Calabasas Landfill.

IT IS RECOMMENDED THAT THE BOARD:

1. Authorize expenditure in the amount of \$679,673.13 from the Los Angeles County Refuse Disposal Trust Fund to reimburse the Calabasas Landfill Working Capital Fund for the December 1, 2011, debt service payment on the Calabasas Landfill Project revenue bonds.
2. Authorize the Chief Executive Office, in coordination with the Treasurer and Tax Collector's Office, to restructure the existing long-term debt to provide near-term savings and better align debt service payments with future operational revenues at the Calabasas Landfill.
3. Authorize the Chief Executive Office to prepare the necessary environmental documentation for a possible future recommendation to amend the County ordinance that sets the rates for the Calabasas Landfill, and the County ordinance that established the wasteshed area, to allow for contracts with large volume waste haulers.

Board of Supervisors
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First District

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Second District

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4. Authorize the Chief Executive Office to request the State's approval to substitute a Pledge of Revenue as an alternative Financial Assurance mechanism for Postclosure Maintenance of the Calabasas Landfill.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the recommended actions will ensure the Calabasas Landfill Working Capital Fund maintains compliance with State postclosure maintenance requirements and will provide long-term financial sustainability for the Calabasas Landfill (Landfill).

Background

The Landfill is operated by the Los Angeles County Sanitation District No. 2 (Sanitation District), on behalf of the County of Los Angeles (County), pursuant to a Joint Powers Agreement. The Landfill is permitted to receive up to 3,500 tons per day (TPD) of solid waste and accepted an average of 1,800 TPD as recently as 2005. Tonnage decreased, however, to 650 TPD in 2012 due to the recession and other market forces. The reduction in tonnage has, in turn, decreased Landfill revenue and despite operating and maintenance cost curtailments implemented by the Sanitation District, has resulted in a projected net annual revenue shortfall of approximately \$4.4 million.

In 2006, the County issued lease-revenue bonds to support the operation of the Landfill. On December 1, 2011, the Sanitation District paid \$679,673.13 in debt service on the bonds from the Calabasas Landfill Working Capital Fund. While this payment satisfied the debt service requirements of the Landfill bonds, it also lowered the Calabasas Landfill Working Capital Fund's balance to an unsustainable level under State regulations.

Recommended Actions

The purpose of the recommended actions is to reimburse the Calabasas Landfill Working Capital Fund for the December 2011 bond payment and thereby enable it to maintain compliance with State requirements. The recommended actions will also contribute toward the Landfill's long-term financial stability through the:

- Reduction in annual debt service payments through a partial refunding of the 2006 Calabasas Landfill Bonds, which were issued to fund construction of improvements at the Landfill;

- Generation of additional tonnage through a potential future amendment of the wasteshed ordinance that will allow for waste disposal agreements;
- Use of \$29.0 million made available through the recommended substitution of the Calabasas Landfill Postclosure Maintenance Fund with a General Fund Pledge of Revenue, which will offset annual Landfill revenue shortfalls until the projected increase in tonnage and associated revenue is achieved; and
- Potential reduction in closure costs through the implementation of a less expensive, alternative closure method.

It is anticipated that the proposed long-term strategies will increase daily tonnage to a minimum of 1,400 TPD, which is expected to be sufficient to balance annual revenue and expenditures. The release of the Postclosure Maintenance Fund will fully offset the Landfill's revenue shortfalls until such financial self-sufficiency is achieved, which is projected to be in Fiscal Year 2017-18.

Each of the recommended strategies will require several approvals from the Board, as well as other jurisdictions, and one to five years to fully develop and implement. In addition to actions required of the Board to implement the recommended strategies, the Chief Executive Office (CEO) will provide status reports on a semi-annual basis.

Debt Refinancing

In January 2006, the County, as owner of the Landfill, issued lease revenue bonds to finance construction that would enable the site to reach its full permitted capacity. The Los Angeles County Public Works Financing Authority issued bonds in the principal amount of \$38,475,000 maturing in 2022, to provide financing for the North Ridge Cut Projects, which were earthmoving projects, and construction of the North Ridge Liner. California Code of Regulations Title 27 Section 20330 requires that composite liners be installed to cover all natural geologic features that are likely to be in contact with waste. The earthmoving projects provided stockpiled dirt for later use as cover material and prepared the Landfill slopes for installation of the liner.

At the time of the debt issuance, site revenue projections were conservatively estimated at 1,575 TPD, which would be sufficient to pay operating costs and the debt financing. Due to the decrease in revenue experienced over the past years, the County has funded approximately \$7.02 million of the debt service payments.

The proposed refunding will restructure the current outstanding debt to provide near-term savings and better align debt service payments with future operational revenues at the Landfill and provide financial relief while daily tonnage is increased. This will be accomplished by taking advantage of the low interest rates currently available, refunding those maturities that provide savings, and possibly extending the final maturity of the bonds by five years to 2027 to better reflect the remaining capacity of the Landfill.

The CEO and Treasurer and Tax Collector will return to the Board with refunding recommendations on the 2006 Calabasas Landfill Bonds as soon as this summer.

Rate Ordinance and Wasteshed Ordinance

The County and Sanitation District are considering a future recommendation amending the wasteshed and rate ordinances to allow for waste disposal agreements with large volume waste haulers originating either within the wasteshed or outside the wasteshed in order to receive additional tonnage into the site. County Ordinance 2009-0052 sets the current fee and charge rates for the Landfill. County Ordinance 91-0003 restricts disposal at the Landfill to solid waste which has its origin in a defined wasteshed area.

The wasteshed area for the Landfill currently includes the incorporated cities of Hidden Hills, Agoura Hills, Westlake Village, Thousand Oaks, Malibu, and Calabasas, and; a portion of the City of Los Angeles; and certain unincorporated areas in the counties of Los Angeles and Ventura. This ordinance was established to control the flow of waste to the Landfill at a time when the tonnage was increasing and there was a concern that sufficient Landfill capacity would not remain for the historical wasteshed area.

It is anticipated that the amended ordinances would include provisions that would allow for waste disposal agreements for guaranteed quantities of solid waste, from inside and outside the wasteshed area, at negotiated rates. These agreements would establish disposal fees that supersede the standard rates and allow the County to offer lower costs in exchange for a commitment of waste delivered to the Landfill. Additional tonnage resulting from the proposed waste disposal agreements would increase overall revenue at the Landfill and is critical for replenishing the funding for postclosure maintenance. An increase in daily tonnage to 1,400 TPD is targeted as the breakeven point at which Landfill revenue and expenditures will be balanced. This amount is 22 percent less than the historic tonnage at the Landfill (1,800 TPD), and 60 percent less than the maximum allowable level under the Landfill's permit (3,500 TPD).

We will return to the Board with appropriate environmental documentation under the California Environmental Quality Act (CEQA) at such time as a recommendation is submitted to the Board regarding changes to the ordinances which may constitute a project under CEQA.

Pledge of Revenue and Revised Closure Funding

State regulations require funding of a Postclosure Maintenance Fund to provide financial assurance for postclosure maintenance activities at the Landfill. Such a fund is controlled by the State and funded by annual contributions from Landfill revenue until the fund balance is sufficient to fund all projected postclosure activities. Currently, the Calabasas Postclosure Maintenance Fund has a balance of \$29.0 million. The total postclosure maintenance cost estimate, in current dollars, is \$75.0 million.

The County is allowed under State regulations to substitute a General Fund Pledge of Revenue for the Postclosure Maintenance Fund. With this mechanism, the County would pledge General Fund revenue to fund any future unmet postclosure maintenance costs. In exchange for such a pledge, the \$29.0 million that has been accumulated in the Postclosure Maintenance Fund would be released and made available for bond payments and site expenditures.

It is projected that the released funds would be sufficient to meet unmet expenditure requirements until the Landfill's daily tonnage is increased to 1,400 TPD, which is expected to be attained in 2017-18, and to continue to the Landfill's expected closure in 2031-32. Once the Landfill is financially self-sustaining, it is anticipated that annual surplus revenue accumulated subsequent to 2017-18 should be sufficient to fund the projected postclosure costs.

To establish the proposed Pledge of Revenue as an alternative financial assurance mechanism, the Board will be required to adopt a resolution authorizing a Pledge of Revenue for postclosure maintenance and enter into a Pledge of Revenue agreement with the State of California, Department of Resource Recycling and Recovery. Upon approval of the agreement, the Pledge of Revenue will become the financial assurance mechanism for postclosure maintenance of the Landfill.

The CEO and Sanitation District will return with a final cash flow projection and the required resolution for Board consideration in the summer.

Alternative Closure Methodology

The Sanitation District has undertaken a study to reduce the closure cost estimate for the site. The current closure method assumes the use of an expensive, prescriptive final cover. A final cover characterization study is currently being conducted to determine whether cover materials currently placed at the site will meet stringent environmental standards and qualify as alternative final cover under State regulations.

The alternative closure method requires the approval of the State Regional Water Quality Control Board. A consultant has been retained to perform the characterization study. The District expects to submit its final study with recommendations to the Regional Water Quality Control Board in July 2013.

Approval of a less expensive, alternative closure method, would potentially make up to \$9.0 million available, from a separate closure fund, for landfill expenditures and bond payments. The CEO and Sanitation District will report on the status of the consultant study and State review on a semi-annual basis.

Implementation of Strategic Plan Goals

The recommendations support the Board-approved County Strategic Plan Goals of Operational Effectiveness (Goal 1) by maximizing the effectiveness of process, and operations to support timely delivery of customer-oriented and efficient public service.

The reimbursement of the bond payment to the Landfill Working Capital Fund, the Pledge of Revenue, and bond refinancing are short-term strategies that are designed to improve the current cash flow of the Landfill and to make funds available for bond payments and site expenditures. Amendment of the rate ordinance and the Wasteshed Ordinance are long-term strategies aimed at bringing in additional tonnage and revenue to the site. As tonnage increases and the site realizes a surplus in revenue, rebuilding the funds for postclosure maintenance would be a priority.

FISCAL IMPACT/FINANCING

The recommended reimbursement to the Calabasas Landfill Working Capital Fund for the \$679,673.13, December 2011 debt service payment will be funded from the Los Angeles County Refuse Disposal Trust Fund.

The recommended refunding of eligible 2006 Calabasas Landfill Bonds has the potential to lower debt service payments by more than \$2 million over the life of the bonds.

Substitution of the Postclosure Maintenance Fund with a General Fund Pledge of Revenue would allow the release of \$29.0 million in reserve funds to offset the Landfill's revenue shortfalls until daily tonnage increases and the Landfill is self-sustaining.

The impacts of the Wasteshed Ordinance and Alternative Closure Methodology will be determined as part of the individual studies and reported to the Board separately.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The Joint Powers Agreement that established the Los Angeles County Refuse Disposal Trust Fund allows, in Section 4(f), for expenditures from the fund for the purpose of constructing fixed improvements necessary for conducting refuse disposal operations. Section 4(h) of the Los Angeles County Refuse Disposal Trust Fund allows for expenditures for the payment of principal and interest on bonds issued and sold by the County for this purpose.

ENVIRONMENTAL DOCUMENTATION

The proposed reimbursement of funds to the Landfill Working Capital Fund, development of an alternative financial assurance mechanism, and the bond refinancing are not projects under CEQA because they are activities that are excluded from the definition of a project by Section 15378(b) of the State CEQA Guidelines. The proposed actions are administrative activities of government that will not result in direct or indirect physical changes to the environment.

We will return to the Board for consideration and approval of the appropriate environmental documentation prior to commencing any activities that would constitute a project under CEQA.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

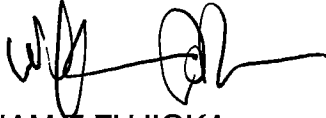
The recommended actions will have no adverse impact on County services or projects at this facility.

The Honorable Board of Supervisors
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CONCLUSION

Please return one adopted copy of this Board letter to the Chief Executive Office, Capital Projects Division, and the Sanitation District.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'W. T. Fujioka', with a long horizontal stroke extending to the right.

WILLIAM T FUJIOKA
Chief Executive Officer

WTF:RLR:DJT
DKM:AT:zu

c: Executive Office, Board of Supervisors
County Counsel
Public Works
Treasurer and Tax Collector
Sanitation District